ANNUAL REPORT 1968

for the Year Ending January 31, 1969

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KING'S

DEPARTMENT STORES, INC.

Financial Highlights

	1969	1968
Current Assets	$35,660,000	$33,528,000
Current Liabilities	16,555,000	17,151,000
Working Capital	19,105,000	16,377,000
Current Ratio	2.2	1.9
Stockholders' Equity	27,416,000	23,527,000
Equity Per Share*	6.41	5.50
Stock Split (Stock Dividend)	2 for 1	5 for 4
Cash Dividend	.40	.25

SIX-YEAR REVIEW

For The Years Ended January 31

	1969	1968	1967	1966	1965	1964
Total Sales	$201,288,000	$156,771,000	$128,392,000	$111,706,000	$100,819,000	$80,686,000
Leased Department Sales	32,019,000	26,847,000	22,351,000	27,041,000	28,722,000	22,770,000
Net Sales	169,269,000	129,924,000	106,041,000	84,665,000	72,097,000	57,916,000
Leased Department and Other Income	3,609,000	2,771,000	2,386,000	2,887,000	3,012,000	2,287,000
Total Income	172,878,000	132,695,000	108,427,000	87,552,000	75,109,000	60,203,000
Cost of Goods Sold and Expenses	162,256,000	123,649,000	100,930,000	80,884,000	69,315,000	56,911,000
Income before Taxes	10,622,000	9,046,000	7,497,000	6,668,000	5,794,000	3,292,000
Provision for Taxes	5,071,000	4,249,000	3,393,000	2,990,000	2,690,000	1,571,000
Net Income	5,551,000	4,797,000	4,104,000	3,678,000	3,104,000	1,721,000
Earnings Per Share*	1.30	1.12	.96	.86	.73	.40
Stock Split (Stock Dividend)	2 for 1	5 for 4	10%	—	5 for 4	5%
Cash Dividends	.40	25	.25	.25	.15	—
Number of Stores	78	68	45	41	35	31

*Based on 4,277,000 shares outstanding

TO OUR STOCKHOLDERS:

May 1, 1969

This has been a year of record accomplishments for King's Department Stores, Inc.

It has been a year when every facet of our business reflected the operating effectiveness that is basic to your Company's long term program for growth and profitability. Earnings and sales rose to new heights, and the Company expanded into new geographical sales areas with the opening of ten new stores. King's is now operating 78 stores in 17 states.

OPERATING RESULTS:

We are pleased to report that at the close of our fiscal year ended January 31, 1969 King's sales topped the $200,000,000 mark.

Net earnings rose to $5,550,000, an all time high, an increase of 15.7% over last year's earnings of $4,797,000.

Sales for the year recently ended were $201,000,000 as compared to $157,000,000 for 1967 — an increase of 28%. Earnings per share rose from $1.12 to $1.30. (It is appropriate to note that the Federal income tax surcharge reduced the net earnings by 12¢ per share.)

As was indicated in our Annual Report last year, on October 16, 1967 your Company acquired approximately 81% of the outstanding capital stock of Miracle Mart, Inc. The acquisition was made after Miracle Mart, Inc. had closed approximately 15 of its 30 stores. For the year ended January 31, 1968, Miracle Mart, Inc. indicated a loss of $3,504,608, of which $3,294,031 of the loss was created prior to October 16, the date of acquisition. For the period October 16, 1967 to January 31, 1968 the Miracle Mart operation reflected an operating loss of $170,151 after giving effect to minority interests. For the current year ended January 31, 1969, the first full year of management by your Company, operations reflected a profit of $562,291 (less a minority interest of $107,960) on sales of $30,303,048.

We are pleased to report this positive reversal under King's operation and we anticipate that Miracle Mart will provide its fair share to our earnings for 1969.

The consolidated financial statements shown in this report include the operations of Miracle Mart, Inc. The earnings statement for the year ended January 31, 1968 has been recast to include the operations of Miracle Mart, Inc. for the period of October 16, 1967 to January 31, 1968.

DIVIDENDS:

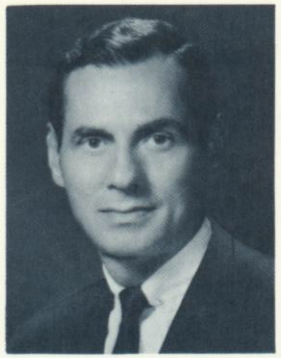
As previously reported, on February 6, 1968 the Board of Director's authorized a 2 for 1 stock split. The number of outstanding shares were increased from 2,135,000 to 4,277,000. The quarterly payment of 10¢ per share on this increased distribution represented a 60% increase in the cash dividend rate.

King's has paid a cash dividend for five consecutive years. It is the intent of your Board of Director's to continue to have stockholders share in the benefits engendered by profitable operations.

FINANCIAL POSITION:

King's financial position showed notable gains, placing your Company in the strongest position in its history.

At year's end current assets were $35,660,000 with current liabilities of $16,555,000. As a result, net working capital totaled $19,105,000 compared to $16,377,000 on January 31, 1968. The Company's continued growth is reflected in the further rise of stockholder's equity per share of $6.41 from $5.50 for the previous year.



Murray A. Candib
President

Aaron O. Cohen
Chairman

OUTLOOK:

Operating costs continue to rise but we expect to meet this challenge by sales expansion and increased operating efficiency.

In review of our long record of successful operation and in consideration of our broad range plans for expansion through the opening of new stores and by acquisition of related companies, we believe that you will continue to be satisfied with the efforts of Management to insure the growth and prosperity of your Company.

ACKNOWLEDGEMENT:

Neither the progress of the past year, nor our optimistic outlook would be possible without the dedication of our loyal staff, the attentive service of our many suppliers, the enduring confidence of our thousands of customers and the support of our stockholders. We extend to them our sincere appreciation.

Respectfully submitted on behalf of
the Board of Directors

Murray A. Candib
President

Aaron O. Cohen
Chairman

THIS IS KING'S . . . . . .

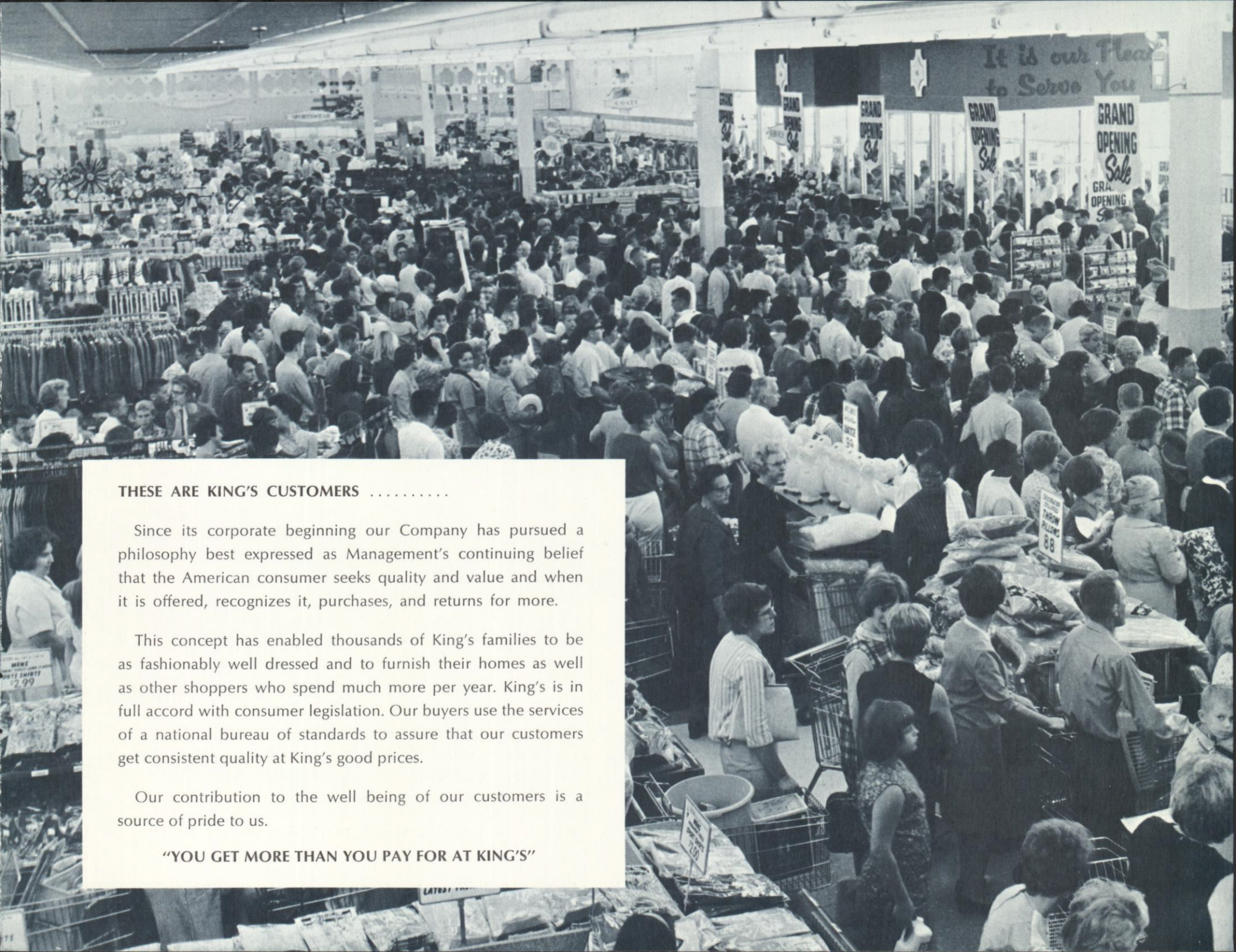
60,000 square feet to 100,000 square feet — each store tailored to the size of the community it serves.

Bright — clean — easily accessible — surrounded by ample parking space — open at hours convenient for the shopper.

Staffed by courteous and efficient King's trained personnel.

Offers selected first-quality clothing for men, women and children in the latest fashions as well as a full line of name-branded home furnishings, hardware, paints, sporting goods, books, records, stationery, health and beauty aids, pets, giftware, jewelry, garden supplies and toys, all insured with the King's policy of

"SATISFACTION GUARANTEED OR YOUR MONEY REFUNDED"



THESE ARE KING'S CUSTOMERS .....

Since its corporate beginning our Company has pursued a philosophy best expressed as Management's continuing belief that the American consumer seeks quality and value and when it is offered, recognizes it, purchases, and returns for more.

This concept has enabled thousands of King's families to be as fashionably well dressed and to furnish their homes as well as other shoppers who spend much more per year. King's is in full accord with consumer legislation. Our buyers use the services of a national bureau of standards to assure that our customers get consistent quality at King's good prices.

Our contribution to the well being of our customers is a source of pride to us.

"YOU GET MORE THAN YOU PAY FOR AT KING'S"

CONSOLIDATED
STATEMENT OF

Source and Application of Funds

Year ending January 31, 1969 with comparative figures for 1968

Funds were provided by:

	1969	1968
Net earnings for the year	$5,551,000	4,707,000
Add charges against earnings, such as depreciation and amortization, minority interest and deferred credits, not requiring funds	1,366,000	1,083,000
	6,917,000	5,880,000
Sale of common shares under stock option plans	47,000	191,000
Reduction in long-term receivables and other assets	330,000	—
Fixed assets retired, less accumulated depreciation	—	93,000
Total funds provided	$7,294,000	$6,164,000

Funds were applied to:

Additions to fixed assets	1,978,000	1,693,000
Cash dividends	1,710,000	1,010,000
Decrease (increase) in long-term obligations	1,077,000	(941,000)
Book value of fixed assets and other assets of subsidiaries acquired	—	1,135,000
Goodwill arising from acquisition of subsidiaries	—	741,000
Miscellaneous	26,000	28,000
Increase in working capital	2,503,000	2,498,000
Total funds applied	$7,294,000	$6,164,000

See accompanying notes to consolidated financial statements.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
2000 Tower Building
Prudential Center
Boston, Massachusetts 02199

The Stockholders and
Board of Directors
King's Department Stores, Inc.

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 31, 1969 and the related statement of earnings and retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 31, 1969 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended January 31, 1969 presents fairly the information shown therein.

April 15, 1969

PEAT, MARWICK, MITCHELL & CO.

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES

Statement of Consolidated Earnings and Retained Earnings
Year ended January 31, 1969 with comparative figures for 1968

	1969	1968
Total store sales	$201,288,000	$156,771,000
Less leased department sales	32,019,000	26,847,000
Net sales	169,269,000	129,924,000
Leased department income	3,358,000	2,498,000
Interest and other income, net	251,000	273,000
Total income	172,878,000	132,695,000
Cost of goods sold, transportation, warehousing and buying expenses	119,123,000	92,846,000
Store operating, administrative and general expenses, including leased department expenses	41,926,000	29,976,000
Depreciation and amortization	1,074,000	867,000
Minority interest in earnings (loss) of a subsidiary	133,000	(40,000)
Total costs and expenses	162,256,000	123,649,000
Earnings before Federal income taxes	10,622,000	9,046,000
Federal income taxes (note 7)	5,071,000	4,249,000
Net earnings	5,551,000	4,797,000
Retained earnings at beginning of year	12,986,000	9,649,000
	18,537,000	14,446,000
Deduct:		
Cash dividends paid, $.40 per share ($.25 in 1968)	1,710,000	1,010,000
Par value of 422,782 shares issued as a 5 for 4 stock split plus cash for fractional shares	—	450,000
	1,710,000	1,460,000
Retained earnings at end of year	$ 16,827,000	12,986,000
Net earnings per common share based on shares issued and outstanding at January 31, 1969	$ 1.30	1.12

See accompanying notes to consolidated financial statements.

Consolidated

January 31, 1969 with

Assets

	1969	1968
Current assets:		
Cash	$ 4,170,000	$ 4,834,000
Restricted cash (note 4)	996,000	2,603,000
Receivables:		
Notes	95,000	2,000
Budget receivables	110,000	111,000
Other	396,000	716,000
	601,000	829,000
Less allowance for doubtful receivables	76,000	72,000
Net receivables	525,000	757,000
Merchandise inventories, at lower of cost or market, principally by the retail method	29,830,000	25,229,000
Prepaid expenses	139,000	105,000
Total current assets	35,660,000	33,528,000
Fixed assets, at cost (note 3):		
Land and land improvements	243,000	204,000
Fixtures and equipment	11,177,000	9,363,000
Leasehold improvements	1,355,000	1,230,000
	12,775,000	10,797,000
Less accumulated depreciation and amortization	5,496,000	4,421,000
Net fixed assets	7,279,000	6,376,000
Other assets:		
Goodwill	516,000	741,000
Unamortized leasehold acquisition costs (being amortized over lives of leases)	1,192,000	1,367,000
Other investments and deposits (note 1)	332,000	577,000
Total other assets	2,040,000	2,685,000
	$44,979,000	$42,589,000

See accompanying notes to consolidated financial statements.

Balance Sheet

comparative figures for 1968

Liabilities and Stockholders' Equity

	1969	1968
Current liabilities:		
Notes payable:		
Banks	$ 6,146,000	—
Other	87,000	84,000
Total notes payable	6,233,000	84,000
Current installments on long-term obligations (note 4)	1,350,000	3,584,000
Accounts payable	3,791,000	8,752,000
Accrued expenses	2,148,000	1,499,000
Federal income taxes	3,033,000	3,232,000
Total current liabilities	16,555,000	17,151,000
Deferred compensation	200,000	150,000
Deferred Federal income taxes applicable to:		
Accelerated depreciation deducted for tax purposes	501,000	458,000
Deferred compensation	(96,000)	(72,000)
Net deferred Federal income taxes	405,000	386,000
Long-term obligations (note 4)	150,000	1,227,000
Minority interest in a subsidiary	253,000	148,000
Stockholders' equity:		
Common stock, $1 par value (note 5). Authorized 10,000,000 shares; issued 4,277,000 shares (1968 - 2,135,000 shares)	4,277,000	2,135,000
Additional paid-in capital (note 6)	6,312,000	8,406,000
Retained earnings	16,827,000	12,986,000
Total stockholders' equity	27,416,000	23,527,000
	$44,979,000	$42,589,000

Commitments (note 8)

Notes to Consolidated Financial Statements

January 31, 1969

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned except Miracle Mart, Inc. which is approximately 81% owned. The Company's consolidated financial statements for the year ended January 31, 1968 have been adjusted retroactively to include the accounts of Miracle Mart, Inc. and its subsidiaries, not previously consolidated, from the date of purchase, October 16, 1967. This has had the effect of reducing previously reported consolidated net earnings for 1968 by $170,151, or $.05 per share.

On October 16, 1967 the Company acquired 81% of the outstanding capital stock of Miracle Mart, Inc. The purchase price of the stock is based in part on the net worth of Miracle Mart, Inc. and its subsidiaries at October 16, 1967, but will in no event be less than $629,247. At January 31, 1969 advance payments made against the purchase price of the Miracle Mart stock totalled $1,161,416, including $100,000 held in escrow pending final determination of the exact amount of the purchase price. If the advance payments made by the Company exceed the purchase price for the Miracle Mart stock (as finally determined), the Company may obtain the repayment of amounts paid by it to the selling stockholders in excess of such purchase price, but only to the extent that such advance payments exceed $629,247. Based on the net worth reflected in the audited consolidated financial statements of Miracle Mart, Inc. and its subsidiaries at October 16, 1967, and before giving effect to the determination of liabilities in the bankruptcy proceedings described in note (2) below, $57,822 of the $100,000 held in escrow will be repaid to the Company. This $57,822 is included in the accompanying balance sheet under the caption "Other Investments and Deposits."

(2) Proceedings under Federal Bankruptcy Act

On December 19, 1966 Miracle Mart, Inc. and two subsidiaries, filed petitions for arrangements with creditors under Chapter XI of the Federal Bankruptcy Act and Plans of Arrangement were confirmed by the referee in bankruptcy on October 16, 1967, providing that the parent company pay in installments 30%, and the subsidiaries 32½% and 40%, respectively, of general unsecured liabilities. At that time Miracle Mart, Inc. and its subsidiaries were discharged as debtors. In accordance with the Plans of Arrangement, the Court has retained jurisdiction for certain specified purposes including the disposition of disputed claims and enforcement of payment of the installments.

Miracle Mart, Inc. is, or has been, a party to various actions in which creditors have made claims, most of which have been settled. As to the claims which are still being disputed, if they are allowed in the full face amounts thereof, after giving effect to the 30% basis for general claims pursuant to the Miracle Mart Plan of Arrangement described in the preceding paragraphs, Miracle Mart will incur aggregate liabilities approximating $4,630,000. Liabilities totalling approximately $3,790,000 have either been discharged by payment or accrued or reserved against in the consolidated balance sheet of the Company and its subsidiaries at January 31, 1969.

If Miracle Mart's liabilities to creditors in the Chapter XI proceedings are allowed in the maximum amount of $4,630,000, the amount of goodwill included in the consolidated balance sheet at January 31, 1969 would be increased by about $840,000.

(3) Fixed Assets — Depreciation and Amortization Policy

Depreciation of fixed assets and amortization of leasehold improvements are provided for book purposes on the straight-line method at rates which are sufficient to write off the cost of the assets over their estimated useful lives. The following summary shows the depreciation and amortization rates used during the period and the cost of the related assets at January 31, 1969:

Classification	Cost	Depreciation and amortization rates
Land	$ 149,000	—
Land improvements	94,000	4%
Fixtures and equipment	11,177,000	10%
Leasehold improvements	1,355,000	10%
	$12,775,000	

(4) Long-term obligations

		Due in one year	Due after one year
CHAPTER XI liabilities of Miracle Mart, Inc. and its subsidiaries (note 2):			
Payments due on claims settled and confirmed by the Court	$ 841,000		
Provision for claims unsettled	550,000		
Total Chapter XI liabilities	$1,391,000	1,309,000	82,000
Deferred employment contract with former officer		30,000	60,000
Other notes payable		11,000	8,000
		$1,350,000	$150,000

The restricted cash of $996,000 shown in the consolidated balance sheet is being administered by a Court appointed trustee in connection with the liquidation of Miracle Mart Chapter XI liabilities.

(5) Stock Option Plans

Options to purchase shares of common stock have been granted to officers and key employees at 100% of fair market value on date of grant, exercisable at the cumulative rate of 25% annually.

Transactions during the year are as follows:

	Number of Shares Issuable under options granted	Number of Shares Available for option
Balance at beginning of year	61,553	—
Changes during the year:		
Shares made available by vote of shareholders	—	100,000
Options exercised at prices ranging from $3.43 to $16.18 per share or a total of $47,480, as compared with quoted market prices ranging from $22.12 to $37.37 per share or a total of $168,590.	(6,663)	—
Options terminated	(560)	—
Balance at end of year	54,330	100,000

Options outstanding at January 31, 1969 to purchase 54,330 shares were granted at prices ranging from $8.09 to $13.00 a share. Options to purchase 16,741 shares were exercisable at January 31, 1969.

The number of shares and prices per share quoted above have been adjusted to reflect stock dividends and all stock splits.

(6) Additional Paid-in Capital

Balance January 31, 1968	$8,406,000
Excess of option price over par value of 6,663 shares issued under stock option plans	41,000
	8,447,000
Deduct par value of shares issued in connection with 2 for 1 stock split	2,135,000
Balance January 31, 1969	$6,312,000

(7) Federal Income Taxes

	1969	1968
Taxes currently payable	$4,908,000	$4,274,000
Utilization of operating loss of Miracle Mart, Inc.	225,000	—
Investment credit	(86,000)	(54,000)
Deferred taxes, net	24,000	29,000
	$5,071,000	$4,249,000

The tax benefit of $225,000 derived from the operating loss of Miracle Mart, Inc. has been applied to reduce goodwill on the accompanying balance sheet.

(8) Commitments

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amount to approximately $6,142,000 at January 31, 1969. Such leases will expire on various dates to 1994, however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expenses for the year amounted to approximately $8,691,000.

Directors

Murray A. Candib

Aaron O. Cohen

Benjamin M. Fiegar

Aaron G. Goldberg

Nathan Greenberg

Jack I. Hartblay

William F. Kenney

Charles J. Kittredge, Jr., Senior Vice President,
The First National Bank of Boston

H. Stanley Krusen, President,
Shearson, Hammill & Co., Incorporated,
New York

Officers

Aaron O. Cohen,
Chairman of the Board

Murray A. Candib,
President

William F. Kenney,
Executive Vice President

Aaron G. Goldberg,
Vice President—Merchandising

Jack I. Hartblay,
Vice President—N. Y. Office

Nathan Greenberg,
Vice President—Finance;
Secretary

Benjamin Fiegar,
Vice President—Treasurer

Transfer Agents

Old Colony Trust Company, Boston.
Marine Midland Trust Company, New York.

Registrars

First National Bank of Boston.
Chemical Bank New York Trust Company.

General Counsel

Parker, Chapin and Flattau, New York.

Auditor

Peat, Marwick, Mitchell & Co.

Executive Offices 150 California Street, Newton, Massachusetts 02158

King's Department Stores, Inc. and Subsidiaries

COLORADO
Denver

CONNECTICUT
Manchester
Meriden
Milford
New Haven
Seymour
Stamford
West Hartford

FLORIDA
Ft. Lauderdale
West Palm Beach

INDIANA
Ft. Wayne (3)

KENTUCKY
Owensboro

MAINE
Auburn
Bangor
Falmouth

MARYLAND
Cumberland
Hagerstown

MASSACHUSETTS
Braintree
Brockton
East Longmeadow
Fitchburg
Hyannis
Methuen
Newton
North Attleboro
Quincy
Shrewsbury
Springfield
Tewksbury
West Roxbury

MICHIGAN
Grand Rapids

NEW HAMPSHIRE
Concord
Plaistow
Portsmouth

NEW JERSEY
Edgewater Park
Vineland

NEW YORK
Albany
Buffalo (3)
Niagara Falls
Plattsburgh

NORTH CAROLINA
Asheboro
Durham
Greensboro
Raleigh
Sanford
Shelby
Statesville
Winston-Salem (2)
Wilmington

OHIO
Alliance
Lancaster
Niles
Youngstown (2)

PENNSYLVANIA
Allentown
Cleona
Harrisburg
Johnstown
Kingston
Lansdale
Minersville
Reading
Scranton
Wilkes Barre
York (2)

VERMONT
Rutland

VIRGINIA
Newport News
Norfolk (3)
Richmond (2)

Coronet Cosmetics, Inc., Newton, Mass.

Noble Specialties, Inc., Newton, Mass.

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